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Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

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FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING July 1, 2003 AND ENDING June 30, 2004
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Fleming Securities Incorporated

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

17797 North Perimeter Drive, Suite 105

(No. and Street)

Scottsdale

(City)

Arizona

(State)

85255

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Daniel A. Cartwright

(480) 419-7811

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Merlin Schumann & Company, P.C.

(Name — if individual, state last, first, middle name)

2505 W. Beryl Avenue, Suite 300

(Address)

Phoenix

(City)

Arizona

(State)

85021

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FOR OFFICIAL USE ONLY

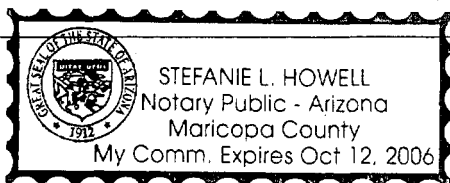
THOMSON
FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

David Alan Cartwright

OATH OR AFFIRMATION

I, Hayden Ralph Fleming, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Fleming Securities Incorporated, as of June 30, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



David Alan Cartwright

Signature

CFO

Title

Stefanie L. Howell
Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

MERLIN SCHUMANN & COMPANY, P.C.

Certified Public Accountants

Merlin J. Schumann, CPA
Charles M. Adriano, CPA
Scott R. Gastineau, CPA

Independent Auditors' Report

August 17, 2004

The Board of Directors
Fleming Securities, Incorporated


We have audited the accompanying statement of financial condition of Fleming Securities, Incorporated, as of June 30, 2004, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fleming Securities, Incorporated as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,


MERLIN SCHUMANN & CO., P.C.
Certified Public Accountants
Phoenix, Arizona

FLEMING SECURITIES, INCORPORATED
Statement of Financial Condition
As of June 30, 2004

Assets

Cash and cash equivalents	\$ 579,300
Cash on deposit with clearing organization	120,043
Securities owned, marketable	123,906
Securities owned, not readily marketable, at cost	81,400
Furniture and equipment - net of accumulated depreciation of \$169,984	17,374
Receivable from clearing organization	46,015
Deposits	15,079
Prepaid Expenses	800
Other receivables	2,307
	<hr/>
Total Assets	\$ 986,224
	<hr/> <hr/>

Liabilities

Payable to clearing organization	\$ 130,579
Accounts payable and accrued expenses	49,750
	<hr/>
Total Liabilities	\$ 180,329
	<hr/> <hr/>

Stockholder's equity

Common stock, \$1 par value, 750,000 shares authorized, 519,420 shares issued and outstanding	519,420
Additional paid in capital	100,000
Retained earnings	186,475
	<hr/>
Total Equity	805,895
	<hr/>
Total Stockholder's Equity	\$ 805,895
	<hr/> <hr/>
Total Liabilities and Stockholder's Equity	\$ 986,224
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

FLEMING SECURITIES, INCORPORATED
Statement of Income
For The Year Ended June 30, 2004

Revenues

Trading Profits	\$ 116,984
Sales Commission Revenue	346,147
Income from Private Placement	668,869
Interest Income	8,748
Miscellaneous Income	36,850
	<hr/>
Total revenues	1,177,598
	<hr/>

Expenses

Employee Compensation	564,553
NASDAQ service	83,468
Clearing fees	96,885
Insurance	79,422
Communications	39,554
Rent	28,229
Depreciation	8,082
Payroll Taxes	50,281
Legal and professional	23,302
Office Supplies	28,105
Regulatory fees and expenses	11,991
Travel and entertainment	10,958
Miscellaneous	9,568
	<hr/>

Total Expenses	1,034,398
	<hr/>
Net Income	\$ 143,200
	<hr/>

The accompanying notes are an integral part of these financial statements.

FLEMING SECURITIES INCORPORATED
Statement of Changes in Stockholder's Equity
For the Year Ended June 30, 2004

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, July 1, 2003	519,420	100,000	43,275	662,695
Net income for the year ended June 30, 2004			143,200	143,200
Balance, June 30, 2004	<u>519,420</u>	<u>100,000</u>	<u>186,475</u>	<u>805,895</u>

The accompanying notes are an integral part of these financial statements.

FLEMING SECURITIES, INCORPORATED
Statement of Cash Flows
For The Year Ended June 30, 2004

Cash flows from operating activities	
Net income	\$ 143,200
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	8,082
Increase (decrease) in cash resulting from:	
Prepaid expenses	4,000
Receivable from clearing organization	(26,205)
Deposit with clearing organization	(43)
Miscellaneous receivable	(263)
Securities owned, marketable	28,586
Payable to clearing organization	(21,963)
Accounts payable and accrued expenses	41,732
Net cash provided by operating activities	<u>177,126</u>
Cash flows used in investing activities	
Purchase of furniture and equipment	(4,682)
Net increase in cash and cash equivalents	<u>172,444</u>
Cash and cash equivalents at beginning of year	<u>406,856</u>
Cash and cash equivalents at end of year	<u><u>\$ 579,300</u></u>

The accompanying notes are an integral part of these financial statements.

FLEMING SECURITIES, INCORPORATED
Notes to Financial Statements
June 30, 2004

1. Summary of significant accounting policies

a. Basis of presentation

Fleming Securities, Incorporated (the Company) conducts business as a securities broker-dealer in Scottsdale, Arizona with a branch office in Clear Lake, Minnesota. These statements have been prepared in accordance with established standards for securities broker-dealers. The following is a summary of significant accounting policies followed by the Company. The policies conform with accounting principles generally accepted in the United States of America and require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates. For the year ended June 30, 2004, there was no difference between the Company's net income and comprehensive income.

b. Cash equivalents

Cash equivalents include highly liquid debt instruments and other short-term investments with an original maturity of three months or less.

c. Securities transactions

The Company's transactions with customers consist exclusively of acting as an introducing broker-dealer to a clearing broker-dealer on a fully disclosed basis. The Company transmits all customer funds and securities to the clearing broker-dealer, who, in turn, carries all the accounts of such customers.

Securities transactions and related commission revenue and expense are recorded on a trade date basis.

d. Receivables

The Company accounts for receivables on the cost basis. Trade receivables consist primarily of amounts due from Southwest Securities and the Company has not encountered collection problems regarding these receivables. Other receivables are written off using the specific identification method at the time the Company determines the receivable to be uncollectible.

FLEMING SECURITIES, INCORPORATED
Notes to Financial Statements
June 30, 2004

1. Summary of significant accounting policies, continued

e. Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives of 7 years using the straight-line method.

f. Income taxes

As of July 1, 1997, the Company elected to be treated as a Subchapter S Corporation under Section 1362 of the Internal Revenue Code. Consequently, the components of the Company's taxable results have been reported on the individual income tax return of the Company's stockholder since that date.

2. Securities owned, marketable

The cost and estimated market values of investment trading securities at June 30, 2004 are as follows:

	<u>Cost</u>	<u>Net realized Gains</u>	<u>Estimated market Value</u>
Securities owned, marketable	\$ <u>122,844</u>	<u>1,062</u>	<u>123,906</u>

The net realized gain at June 30, 2004, is recognized in the statement of operations.

3. Securities owned, not readily marketable

Securities owned, not readily marketable are carried at cost. Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. The securities owned, not readily marketable consisted of the following warrants and private placement securities, which are recorded at cost, which approximates fair market value:

NASDAQ private placement stock	\$ 78,000
NASDAQ warrants	3,300
Qualigen Warrants	50
Applied Biometrics, Inc. warrants	<u>50</u>
	\$ <u>81,400</u>

FLEMING SECURITIES, INCORPORATED
Notes to Financial Statements
June 30, 2004

4. Deposits

The Company is required to hold a cash deposit with the clearing broker. The deposit requirements are a contractual obligation between the Company and its clearing broker and can be adjusted based on the type and value of securities held in inventory. A deposit in the amount of \$120,043 is considered an allowable asset under the Security and Exchange Commission Uniform Net Capital Rule (rule 15c3-1).

5. Receivable from and payable to clearing broker

Amounts receivable from and payable to the clearing broker at June 30, 2004, consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Trading income receivable	\$ 17,567	-
Fees and commissions receivable	28,448	-
Clearing charges and fees		7,735
Payable for securities owned, marketable	-	<u>122,844</u>
	<u>\$ 46,015</u>	<u>130,579</u>

6. Net capital

Pursuant to the net capital provision of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital of \$100,000, and requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1. Net capital and the related net capital ratio may fluctuate on a daily basis.

At June 30, 2004, the Company had net capital of \$665,142, which was \$565,142 in excess of its required net capital of \$100,000. The Company's ratio of aggregate indebtedness to net capital was .27 to 1.

7. Commitments

On October 15, 1999, the Company signed a five-year operating lease for its office facilities, which expires October 31, 2004. The lease provides for monthly payments of \$7,169 for the first twelve months and escalates \$150 every twelve months, thereafter. The Company is also responsible for a percentage of the annual operating expenses as defined in the lease agreement.

FLEMING SECURITIES, INCORPORATED
Notes to Financial Statements
June 30, 2004

7. Commitments, continued

Two affiliates, which share the premises, reimbursed the Company approximately \$64,000 for rent for the year ended June 30, 2004. Future minimum lease obligations for the office space at June 30, 2004, before reimbursement from affiliates is \$23,321 for the year ended June 30, 2005.

8. Related party transactions

Included in total revenues are commissions from transactions with related party and family related accounts totaling approximately \$82,000 for the year ended June 30, 2004.

Certain employees also work for an affiliate of the Company. The affiliate reimburses the Company for a portion of the salary and bonus. For the year ended June 30, 2004, the affiliate reimbursed the Company approximately \$190,000.

9. Credit Risk

Although certain customers with margin accounts are cleared by another broker/dealer on a fully disclosed basis, the Company may be exposed to off-balance sheet risk in the event such customers are unable to fulfill their contractual obligations.

The Company maintains bank accounts with balances in excess of federally insured limits, which exposes the Company to risk in the event of a bank failure. The Company had deposits in excess of federally insured limits in the amount of \$506,317. The Company had deposits with Southwest Securities in excess of SIPC insured limits, in the amount of \$20,043.

SUPPLEMENTAL INFORMATION

Schedule I

FLEMING SECURITIES, INCORPORATED
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of June 30, 2004

Net Capital

Total stockholder's equity	\$ 805,895
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Nonallowable assets

Securities, not readily marketable	81,400
Furniture, equipment and leasehold improvements	17,375
Other assets	15,879
Receivables	<u>2,307</u>
Total deductions	<u>116,961</u>
Net capital before haircuts on securities positions	688,934

Haircuts

Securities	18,586
Undue concentration	<u>5,206</u>
Total haircuts	<u>23,792</u>
Net capital	<u><u>\$ 665,142</u></u>

Aggregate indebtedness

Accounts payable, accrued expenses, and other liabilities, as adjusted	<u><u>\$ 180,329</u></u>
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Computation of basic net capital requirement

Minimum net capital required (6 2/3% of aggregate indebtedness)	<u><u>\$ 12,022</u></u>
Minimum dollar net capital requirement	<u><u>\$ 100,000</u></u>
Net capital requirement (greater of above)	<u><u>\$ 100,000</u></u>
Excess net capital	<u><u>\$ 565,142</u></u>
Excess net capital at 1000%	<u><u>\$ 647,109</u></u>
Ratio: Aggregate indebtedness to net capital	<u><u>.27 to 1</u></u>

Schedule I (continued)

FLEMING SECURITIES, INCORPORATED
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of June 30, 2004

Reconciliation of the computation of net capital with the computations included
in Part IIA of Form X17A-5 as of the same date.

Net capital per focus report	\$	689,016
Changes resulting from audit adjustments		
Increase in cash		6,148
Decrease in commissions receivable		(1,306)
Increase in payables		(28,347)
Increase in undue concentration		(369)
Net capital per audit report	\$	<u>665,142</u>

Schedule II

FLEMING SECURITIES, INCORPORATED

As of June 30, 2004

Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the
Securities and Exchange Commission

The Company's transactions with clients consist exclusively of acting as an introducing broker-dealer to a clearing broker-dealer on a fully disclosed basis. The Company transmits all customer funds and securities to the clearing broker-dealer who, in turn, carries all the accounts of such customers. The Company therefore meets the requirements of paragraph (k)(2)(ii) of Rule 15c3-3 and is exempt from the computation of cash reserves requirements for brokers and dealers.

MERLIN SCHUMANN & COMPANY, P.C.

Certified Public Accountants

Merlin J. Schumann, CPA
Charles M. Adriano, CPA
Scott R. Gastineau, CPA

Independent Auditor's Report on Internal Control Structure Required by SEC Rule 17a-5

Board of Directors
Fleming Securities, Incorporated

In planning and performing our audit of the financial statements and supplemental schedules of Fleming Securities, Incorporated (the Company), for the year ended June 30, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve system

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition

Independent Auditors' Report on Internal Control Structure Required by
SEC Rule 17a-5, continued

and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraphs.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at June 30, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, National Association of Securities Dealers, Inc. and other regulatory agencies that rely on rule 17a-5(g) under The Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



MERLIN SCHUMANN & CO., P.C.
Certified Public Accountants
Phoenix, Arizona

August 17, 2004